

**MORALE, WELFARE, AND RECREATION FUND,
ENTERPRISE FUND, DONATION FUND,
AND TRUST FUND OF
VETERANS HOME OF CALIFORNIA - BARSTOW
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2008
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)**

VETERANS HOME OF CALIFORNIA - BARSTOW
(A Nonprofit Organization)
JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

California Department of Veterans Affairs
Administrative Services Division
Sacramento, California

We have audited the accompanying statements of financial position of not for profit specified funds of the Veterans Home of California - Barstow, as of June 30, 2008, and 2007 and the related statements of activities and net assets, functional expenses, and cash flows for the years then ended. The funds audited are Morale, Welfare, and Recreation Fund, Enterprise Fund, Donation Fund, and Member Trust Fund. These financial statements are the responsibility of Veterans Home of California - Barstow management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the specified funds of the Veterans Home of California - Barstow as of June 30, 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

July 21, 2009

Miers & Miers

VETERANS HOME OF CALIFORNIA – BARSTOW
(A Nonprofit Organization)

COMBINED STATEMENT OF FINANCIAL POSITION
ALL FUND TYPES

JUNE 30, 2008

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)

	Morale, Welfare, and Recreation Fund	Enterprise Fund	Member Trust Fund	Fixed Assets Fund	2008 Totals (Memorandum Only)	2007 Totals (Memorandum Only)
Assets:						
Cash	\$ 277,011	\$ 17,094	\$ 428,590	\$ ---	\$ 722,695	\$ 642,028
Investments	1,249,194	---	---	---	1,249,194	1,334,760
Due from Member Trust Fund	74	---	---	---	74	111
Inventories	---	10,525	---	---	10,525	8,077
Fixed assets	---	---	---	138,794	138,794	138,794
Total assets	\$ 1,526,279	\$ 27,619	\$ 428,590	\$ 138,794	\$ 2,121,282	\$ 2,123,770
Liabilities and net assets:						
Accounts payable	\$ ---	\$ 1,677	\$ 174	\$ ---	\$ 1,851	\$ 1,820
Due to members	---	---	428,342	---	428,342	312,271
Due to Morale, Welfare, and Recreation Fund	---	---	74	---	74	111
Total liabilities	---	1,677	428,590	---	430,267	314,202
Net assets:						
Restricted	188,008	---	---	138,794	326,802	331,662
Unrestricted	1,338,271	25,942	---	---	1,364,213	1,477,906
Total net assets	1,526,279	25,942	---	138,794	1,691,015	1,809,568
Total liabilities and net assets	\$ 1,526,279	\$ 27,619	\$ 428,590	\$ 138,794	\$ 2,121,282	\$ 2,123,770

See accompanying notes to financial statements.

VETERANS HOME OF CALIFORNIA – BARSTOW
(A Nonprofit Organization)
STATEMENT OF FINANCIAL POSITION
MORALE, WELFARE, AND RECREATION FUND
JUNE 30, 2008
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)

	Morale, Welfare, and Recreation Fund			
	Donation Fund	General Fund	2008 Total Fund	2007 Total Fund
Assets:				
Cash	\$ 118,027	\$ 158,984	\$ 277,011	\$ 326,532
Investments	152,307	1,096,887	1,249,194	1,334,760
Due from Member Trust Fund	<u>---</u>	<u>74</u>	<u>74</u>	<u>111</u>
Total assets	<u>\$ 270,334</u>	<u>\$ 1,255,945</u>	<u>\$ 1,526,279</u>	<u>\$ 1,661,403</u>
Liabilities and net assets:				
Net assets, restricted	\$ 188,008	\$ ---	\$ 188,008	\$ 192,868
Net assets, unrestricted	<u>82,326</u>	<u>1,255,945</u>	<u>1,338,271</u>	<u>1,468,535</u>
Total liabilities and net assets	<u>\$ 270,334</u>	<u>\$ 1,255,945</u>	<u>\$ 1,526,279</u>	<u>\$ 1,661,403</u>

VETERANS HOME OF CALIFORNIA – BARSTOW
(A Nonprofit Organization)
STATEMENT OF CHANGES IN NET ASSETS
MORALE, WELFARE, AND RECREATION FUND
YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)

	Morale, Welfare, and Recreation Fund			
	Donation Fund	General Fund	2008 Total Fund	2007 Total Fund
Revenue, restricted	\$ 20,438	\$ ---	\$ 20,438	\$ 127,884
Expenditures, restricted	<u>25,045</u>	<u>---</u>	<u>25,045</u>	<u>85,040</u>
Change in net assets, restricted	(4,607)	---	(4,607)	42,844
Net assets at beginning of year, restricted	<u>192,615</u>	<u>---</u>	<u>192,615</u>	<u>149,771</u>
Net assets at end of year, restricted	188,008	---	188,008	192,615
Revenue, unrestricted	10,812	121,831	132,643	216,329
Expenditures, unrestricted	13,732	89,875	103,607	109,107
Transfers to other funds	20,000	---	20,000	---
Unrealized gain (loss) in changes in fair value of investments	<u>(8,454)</u>	<u>(131,099)</u>	<u>(139,553)</u>	<u>33,673</u>
Change in net assets, unrestricted	(31,374)	(99,143)	(130,517)	140,895
Net assets at beginning of year, unrestricted	<u>113,700</u>	<u>1,355,088</u>	<u>1,468,788</u>	<u>1,327,893</u>
Net assets at end of year, unrestricted	<u>82,326</u>	<u>1,255,945</u>	<u>1,338,271</u>	<u>1,468,788</u>
Total net assets at end of year	<u>\$ 270,334</u>	<u>\$ 1,255,945</u>	<u>\$ 1,526,279</u>	<u>\$ 1,661,403</u>

VETERANS HOME OF CALIFORNIA – BARSTOW
(A Nonprofit Organization)
STATEMENT OF CHANGES IN NET ASSETS
ENTERPRISE FUND
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>% To Revenue</u>	<u>2007</u>	<u>% To Revenue</u>
Operating revenue				
Sales	\$ 39,263	100%	\$ 36,399	100%
Cost of sales	<u>25,815</u>	66	<u>29,529</u>	81
Gross margin	13,448	34	6,870	19
Operating expenses				
Cash shortage	(9)		19	
Operating supplies	2,385		2,490	
Payroll	<u>14,536</u>		<u>10,937</u>	
Total operating expenses	<u>16,912</u>	43	<u>13,446</u>	37
Operating income (loss)	(3,464)	(9)	(6,576)	(18)
Other revenue				
Interest income	35	---	---	---
Transfers from other funds	<u>20,000</u>	51	<u>---</u>	---
Net revenue (loss)	16,571	42	(6,576)	(18)
Retained earnings at beginning of year	<u>9,371</u>		<u>15,947</u>	
Retained earnings at end of year	<u>\$ 25,942</u>		<u>\$ 9,371</u>	

VETERANS HOME OF CALIFORNIA – BARSTOW
(A Nonprofit Organization)
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Net revenue (loss)	\$ 16,571	\$ (6,576)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	---	---
Changes in assets and liabilities		
Inventories and prepayments	(2,448)	2,590
Accounts payable	<u>(60)</u>	<u>1,235</u>
Net cash provided (used) by operating activities	<u>14,063</u>	<u>(2,751)</u>
 Net increase (decrease) in cash and cash equivalents	 14,063	 (2,751)
 Cash and cash equivalents at beginning of year	 <u>3,031</u>	 <u>5,782</u>
 Cash and cash equivalents at end of year	 <u>\$ 17,094</u>	 <u>\$ 3,031</u>

VETERANS HOME OF CALIFORNIA – BARSTOW
(A Nonprofit Organization)
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL
MORALE, WELFARE, AND RECREATION FUND
GENERAL FUND, UNRESTRICTED
YEAR ENDED JUNE 30, 2008

	2008			
	Budget	Actual	Variance Favorable (Unfavorable)	2007 Actual
Revenues:				
Unreimbursed cost of care	\$ 55,000	\$ 34,080	\$ (20,920)	\$ 137,857
Interest income	50,000	76,223	26,223	73,071
Quality of Life fund	---	11,498	11,498	---
Other income	100	30	(70)	40
Total revenues	105,100	121,831	16,731	210,968
Expenditures:				
Active member, payroll therapy	---	---	---	10,519
Activity food cost	4,000	3,942	58	3,661
Activity vehicle/driver costs	3,000	---	3,000	---
Administrator's discretionary	3,000	342	2,658	566
Allied Council administration	16,000	9,930	6,070	8,320
Bank service charges	5,000	4,378	622	224
Burial service	---	50	(50)	3,441
Cable	16,800	16,597	203	33,074
Celebration and entertainment	3,500	3,141	359	1,515
Chapel, operating	2,000	2,000	---	1,428
Estates collection	20,000	124	19,876	---
Financial management	17,000	16,200	800	16,140
Indigent	1,200	---	1,200	---
Interest cost	15,400	15,169	231	11,174
Library	250	250	---	---
Miscellaneous	1,000	---	1,000	368
Public relations	1,500	---	1,500	---
Recreation activities	7,300	5,395	1,905	6,293
Special project	---	---	---	200
Therapeutic activity	4,500	2,987	1,513	3,153
Volunteer stipend program	12,000	9,180	2,820	---
Volunteer services	500	190	310	21
Total expenditures	133,950	89,875	44,075	100,097
Excess of revenues over (under) expenditures	(28,850)	31,956	60,806	110,871
Unrealized gain (loss) in changes in fair value of investments	---	(131,099)	(131,099)	32,139
Fund balance at beginning of year	1,355,088	1,355,088	---	1,212,078
Fund balance at end of year	\$ 1,326,238	\$ 1,255,945	\$ (70,293)	\$ 1,355,088

VETERANS HOME OF CALIFORNIA – BARSTOW
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The administrator maintains a Morale, Welfare, and Recreation Fund, authorized under California Codes, Military and Veterans Code, Section 1010-1050, that is to be used, at the discretion of the administrator and subject to the approval of the secretary, to provide for the general welfare of the veterans, including, but not limited to, providing for operations of the Veterans' Home Exchange, hobby shop, motion picture theater, library, band, and any other functions that are operated for the morale, welfare, and recreation of the veterans, and to pay for newspapers, chapel expenses, welfare and entertainment expenses, sports activities, celebrations, and any other activity that is for the morale, welfare, and recreation of the veterans.

The financial statements of the Organization consist only of the funds and account groups of the Veterans Home of California – Barstow.

Fund Accounting

The accounts of the Veterans Home of California – Barstow are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures or expenses, as appropriate. The Organization's resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into generic fund types and broad fund categories, as follows:

- Morale, Welfare, and Recreation Fund
- Enterprise Fund
- Member Trust Fund
- Fixed Assets Fund

Memorandum Totals

Memorandum totals in the combined statements contain the totals of the similar accounts of the various funds. Since the use of the assets of these funds is restricted according to the purposes for which the funds are established, the totaling of the accounts is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the authority establishing the separate funds.

Basis of Accounting

Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

VETERANS HOME OF CALIFORNIA – BARSTOW
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All funds are accounted for using the modified accrual basis of accounting. The revenue is recognized when it becomes measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is principal on general long-term debt which is recognized when due.

Budgetary Data

The Veterans Home of California – Barstow establishes accounting control through formal adoption of an annual operating budget for all funds. The budget is adopted on a basis consistent with generally accepted accounting principles. The legal level of budgetary control, that is, the level at which expenditures cannot exceed appropriations, is the fund level for the Morale, Welfare, and Recreation Fund. All unencumbered budget appropriations lapse at the end of each fiscal year. Throughout the fiscal year, the budget was amended to add supplemental appropriations.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

Veterans Home of California – Barstow, Morale, Welfare, and Recreation Fund, Enterprise Fund, Donation Fund, and Member Trust Fund, are exempt from federal income taxes and therefore no provision has been made for federal income taxes in the accompanying financial statements.

NOTE B: CASH AND INVESTMENTS

The Veterans Home of California – Barstow maintains a cash and investment pool. Each type balance in the pool is reflected on the balance sheet as cash and investments.

Cash Deposits

The carrying amounts of the Organization's cash deposits were \$722,695 at June 30, 2008. Bank balances before reconciling items were \$737,408 at that date, the total amount of which was collateralized or insured with securities held by pledging financial institutions in the Organization's name as discussed below.

VETERANS HOME OF CALIFORNIA – BARSTOW
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE B: CASH AND INVESTMENTS (Continued)

The California Government Code requires California banks and savings and loan associations to secure the Organization's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Organization's name.

The market value of the pledged securities must equal at least 110% of an Organization's deposits. California law also allows financial institutions to secure Organization deposits by pledging first trust deed mortgage notes having a value of 150% of an Organization's total deposits. The Organization may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation.

Investments

Under the provisions of the Organization's investment policy, and in accordance with California Government Code, the following investments were authorized:

- Securities issued by the U.S. Treasury
- Securities issued and fully guaranteed as to payment by an agency of the U.S. Government
- Banker's Acceptances
- Non-negotiable certificates of deposit
- Repurchase Agreements
- California Local Agency Investment Fund (State Pool)
- Corporate medium-term notes
- Mortgage-backed securities
- Diversified Management Companies, as defined by Section 23701(m) of the Revenue Taxation Code

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value, resulting in the following investment income:

Realized gain/loss on matured investments	\$	(2,624)
Unrealized loss in changes in fair value of investments		(139,553)
Investment Income		<u>78,853</u>
Total investment income	\$	<u>(63,324)</u>

The Organization portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates have risen, the portfolio value will have declined. If interest rates have fallen, the portfolio value will have risen.

In accordance with GASB Statement No. 31, the portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. The Organization's policy is to buy and hold investments until their maturity dates.

VETERANS HOME OF CALIFORNIA – BARSTOW
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE B: CASH AND INVESTMENTS (Continued)

Summary of Cash and Investments

The following is a summary of pooled cash and investments at June 30, 2008:

	Business-Type Activities	Total
Cash and investments	\$ 1,971,889	\$ 1,971,889
Restricted cash and investments	\$ 1,971,889	\$ 1,971,889

At June 30, 2008, the Organization had the following deposits and investments:

	Credit Quality Ratings	Fair Value	Cost
Organization Treasury:			
Deposits	Not rated	\$ 722,695	\$ 722,695
Total deposits		722,695	722,695
Investments:			
Equity			
Morgan Stanley Cap Tr VIII GTD		73,240	100,000
Corporate bonds			
Household Fin Corp	Aa3/AA-	50,180	49,610
Household Fin Corp	Aa3/AA-	46,207	50,000
General Mtrs Accep Cpsmartnbe	B3/B	23,092	50,000
General Mtrs Accep Corp	B3/B	86,082	200,000
General Mtrs Corp Sr Deb	CAA1/B	29,125	51,235
Certificates of deposit			
Capital One FSB Falls Church	A2/not rated	99,567	98,806
JP Morgan Chase Bk NA	Aaa/not rated	101,180	100,000
Pacific Coast National Bank	Not rated	99,168	100,000
First Bank PR	Ba1/not rated	50,180	50,000
Lehman Bros Bk FSB	Not rated	100,485	100,000
M & I Marshall & Isley Bk	FDIC insured	73,361	75,000
MI Bk FSB Las Vegas Nev	FDIC insured	73,361	75,000
Southwest Bk St. Louis Mo	FDIC insured	98,600	100,000
Countrywide Bank	Not rated	5,000	5,000
Discover Bk	Not rated	25,262	25,000
Mutual funds			
American Capital Income Builder CL A	Not rated	122,045	132,634
Securities of U.S. Government Agencies			
FNMA	Aaa/AAA	93,059	93,000
Total investments		1,249,194	1,455,285
Total cash and investments		\$ 1,971,889	\$ 2,177,979

VETERANS HOME OF CALIFORNIA – BARSTOW
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE B: CASH AND INVESTMENTS (Continued)

Risk Disclosures

Interest Rate Risk. At June 30, 2008, the Organization Treasury had the following investment maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>5 to 10</u>	<u>10 to 15</u>	<u>15 to 20</u>	<u>20 to 60</u>
Equity	\$ 73,240	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 73,240
Certificates of deposit	726,164	330,177	---	---	---	395,987	---
Corporate bonds	234,686	---	50,180	69,299	86,082	29,125	---
Mutual funds	122,045	122,045	---	---	---	---	---
Securities of U.S. Government Agencies	<u>93,059</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>93,059</u>	<u>---</u>
Total	<u>\$ 1,249,194</u>	<u>\$ 452,222</u>	<u>\$ 50,180</u>	<u>\$ 69,299</u>	<u>\$ 86,082</u>	<u>\$ 518,171</u>	<u>\$ 73,240</u>